

Now What ????

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Pay Cash

I ordered a meal at a fast-food place that cost \$4.73. I handed the worker a ten-dollar bill. She entered the \$10 into the register and the cash drawer opened. The register indicated the amount of change due back to me as \$5.27. She looked into the cash drawer and stopped. She didn't know how to make the change. Next I watched her count using her fingers. She needed to pull two pennies and one quarter from the change portion of the drawer and then a \$5 bill from the clips. She didn't know how to make the change.

She had recently graduated from high school indicated by a lapel pin designating her as a member of the *Class of 2014*. I stood there wondering how she would ever make it in life if she didn't even understand the principle of cash and it occurred to me that school had failed to teach her something as basic as how to count money. But school is not entirely to blame. She needs to take responsibility for herself. If she doesn't then her future will be riddled with financial woes. It starts that simply, that fundamentally.

An entire generation of people is losing sight of the importance of cash – both as a legal tender – and in terms of buying power. The former is mechanical and basic but the latter is more complicated and compounded once inflation, debt, and poor decision-making come into play.

There is a cardinal rule : Cash is king always, always, always. Pay cash for items of expense to avoid debts and it will increase your purchasing power. How? The physical handling of cash creates a mental picture of what is actually happening. Pay cash for your next vehicle, your furniture, your appliances, your next shopping spree and you will soon appreciate what I am saying. As you watch hard-earned dollars leave your pocket and then you see yourself physically handing it to someone else, it will make indelible impressions upon you. Those lessons last lifetimes.

Too often a credit card is used for expenses - which actually creates debt if not paid off within 30 days of billing. A Credit card is readily available, easy to obtain and one of the worst forms of cash. Why? There is no mental model when you run your card through a reader. You sign something, throw the receipt into your pocket and walk away not having learned what you just did: You just spent hard-earned money that took you hours to make on something that took less than a minute to spend. Go through life doing too much of that and you will never have enough.

There is a lot to be said for the *picture memory* of dealing in cash. Today's generation has re-defined cash and lost the picture memory of it. Cash is now plastic, or worse, completely virtual. Many analysts believe that printed money will eventually disappear and be replaced by bit coins or other forms of digital currency.

What's the lesson here? It is fundamental, of course:

Watch someone do something and you observe.

Do it yourself and you learn.

Learning is an action.

Observing is passive.

Those who go through life learning are those who achieve most of their goals. Those who go through life observing are those who generally wind up broke with needs that cannot be met, let alone desires.

Does this mean you should carry thousands of dollars around in your pocket every time you want to buy something? No. But when you purchase small things less than \$100 in value, carry the physical cash and use it to pay for it.

First, you will experience the cumbersome act of having to drive to an ATM machine – one that does not charge you a fee to use your own money - to pull your cash out.

Then you have to handle the cash and store it in a safe place, keeping track of it and counting it as you use it.

Then you actually use it to pay for items, handing it off for an item of purchase making you think twice about how badly you really need the item. Do this for one year. You will learn the lessons of cash and understand the power of it.

How many pennies do you need to carry in your pocket? How much change do you need to have in your purse? If you handle cash, you will know these answers. If you don't then try using cash for everything you buy for a period of one month. The answer will become very clear. Petty? Not really. If you learn to manage cash in your daily purchases, then when the time comes to make larger purchases, you will be in control.

You will also learn the second valuable lesson of cash – that is, the power of cash. By this I mean, purchasing power. That's where inflation comes into play. What is inflation? Inflation occurs when too much money is circulating. An increase in printed money increases the supply of money and thus decreases the overall value of the money. Thus, it takes more dollars to buy things. Everything costs more to make.

A bag of potato chips is a good way to illustrate inflation. Let's say a bag of chips costs \$3.00 and that the bag is stuffed with chips to the very brim of the bag. But inflation comes along and makes the potato and the salt cost more.

It drives up the cost of the packaging and
the wages to pay the workers, and

the utilities to run the production line, and
the shipping costs of the packaged product.

But the manufacturer of the chips doesn't want to increase the price of the bag at the store because you won't buy it, so he is left with two choices:

first, lose money because his costs are higher giving him less profit margin or
second, put less product into the bag and don't change the price.

That's inflation - Less product for more cost to you. You still pay \$3 for the chips but now you get a half a bag of air with it.

It happens all the time at the grocery store. Every time you see new packaging or a new size or more for less, you know it is nothing but a marketing gimmick for product that is simply altered because it is more expensive. What do you care if the chip bag is now green instead of yellow or says "new" someplace on it? It's still half full of air and still costs \$3.00. But don't blame the grocery store or the product manufacturer. Blame your government – they are the ones printing money, over-regulating the manufacturer and driving all the costs up. The power of cash also includes compounding. Compounding happens with debt as well as with growth.

What is compound debt? Buy something using a credit card and pay it back for a period of 12 months. You will pay 18% *more* for that item than had you used cash instead. Why? Interest. Interest is the price you pay to the credit card company for the privilege of using their money over time instead of using cash from your pocket. Thus, your debt compounds. Worse, you hand your purchasing power over to the credit card company and they in turn have that power over you until the debt is paid in full – with interest added to it.

What is compound wealth? Compound wealth is financial power you gain by taking risks. By investing in companies who grow their business, you get part of their profits when they succeed. Where can you find compound growth opportunities? Many places, but the stock market is the most common place.

Fundamentally, the stock market is merely an exchange where businesses come to the table and show you what they have to offer and give you the opportunity to buy a piece of their action. You buy in and then the compounding takes place over time as companies grow year after year and expand their product lines and markets. So how do you build compound growth and gain power over your money?

Get out of debt.

Pay cash for everything you possibly can and
put at least \$100 a month into the stock market.

In your future then, you won't have to worry about making change from a cash register. Instead, you will *own* the cash register.